

A REPORT  
TO THE  
**ARIZONA LEGISLATURE**

Accounting Services Division

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Status Review

# **Roosevelt Elementary School District No. 66**

As of May 3, 2007

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**Debra K. Davenport**  
Auditor General

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DEBRA K. DAVENPORT, CPA  
AUDITOR GENERAL

**STATE OF ARIZONA**  
**OFFICE OF THE**  
**AUDITOR GENERAL**

WILLIAM THOMSON  
DEPUTY AUDITOR GENERAL

October 30, 2007

Governing Board  
Roosevelt Elementary School District No. 66  
6000 South 7th Street  
Phoenix, AZ 85042

Members of the Board:

In our October 31, 2006, compliance review report, we notified you that the District had not complied with the *Uniform System of Financial Records* (USFR) for the year ended June 30, 2005. The District was given 90 days to implement the recommendations in our report. We subsequently performed a status review of the District's internal controls as of May 3, 2007. Our review covered the deficiencies we had previously communicated to management and deficiencies included in the District's June 30, 2006, audit reports and USFR Compliance Questionnaire. The purpose of our status review was to determine whether the District was in substantial compliance with the USFR as of the date of our review. Our review consisted primarily of inquiries and selective testing of accounting records and control procedures. The review was more limited in scope than would be necessary to express an opinion on the District's internal controls. Accordingly, we do not express an opinion on its internal controls or ensure that all deficiencies were disclosed.

Based on the number and nature of the deficiencies noted in our status review, the District still has not complied with the USFR. Within a few days, we will issue a letter notifying the Arizona State Board of Education of the District's noncompliance and requesting that appropriate action be taken as prescribed by Arizona Revised Statutes §15-272. Recommendations to correct these deficiencies are described in this report. District management should implement these recommendations to ensure that the District fulfills its responsibility to establish and maintain internal controls that will adequately comply with the USFR. We have communicated specific details for all deficiencies to management for corrections.

Thank you for the assistance and cooperation that your administrators and staff provided during our status review. My staff and I will be pleased to discuss or clarify items in this report.

Sincerely,

Debra K. Davenport  
Auditor General

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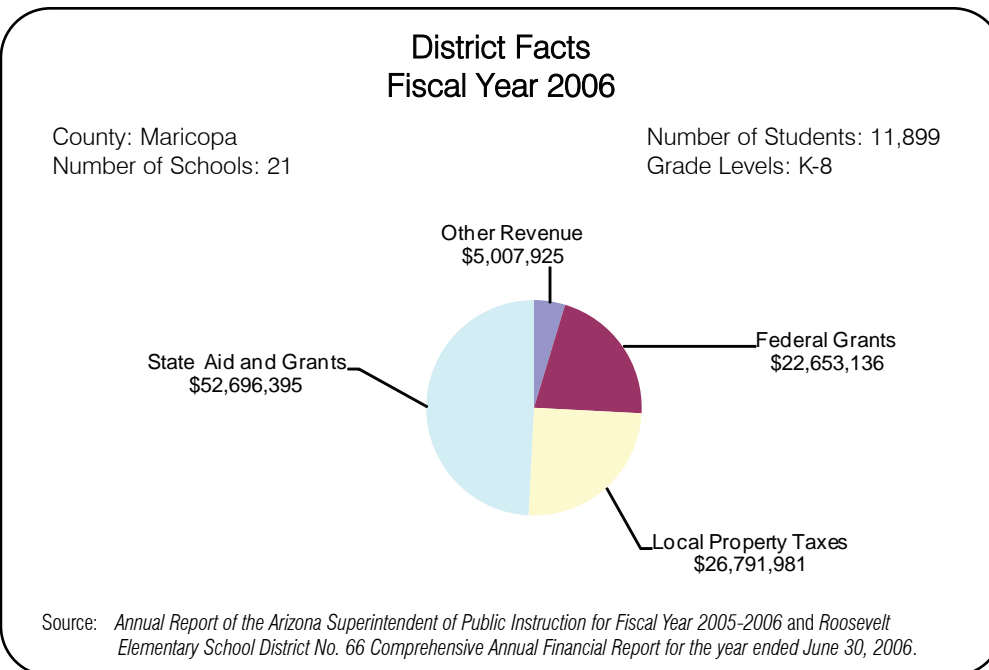


# INTRODUCTION

Roosevelt Elementary School District No. 66 is accountable to its students, their parents, and the local community for the quality of education provided. The District is also financially accountable to taxpayers for over \$107 million it received in fiscal year (FY) 2006 to provide this education.

The District should use effective internal controls to demonstrate responsible stewardship for the tax dollars it receives. These controls are set forth in the *Uniform System of Financial Records* (USFR), a joint publication of the Office of the Auditor General and the Arizona Department of Education (ADE). The policies and procedures in the USFR incorporate finance-related state and federal laws and regulations and generally accepted accounting principles applicable to school districts. Districts are legally obligated to comply with USFR requirements, and doing so is good business practice.

As a result of our status review, we determined that the District had failed to comply with the USFR. We noted certain deficiencies in controls that the District's management should correct to ensure that it fulfills its responsibility to establish and maintain adequate financial stewardship and to comply with the USFR. Our recommendations are described on the following pages.



# The District's capital assets and stewardship lists should be accurate and complete

The District lacked accountability over its capital assets as its capital assets and stewardship lists were incomplete and inaccurate, and some assets could not be located on the District's premises.

The District has invested a significant amount of money in its capital assets, which consist of land, buildings, and equipment. In order to protect its investment, effective stewardship requires the District to maintain accurate lists of these assets. However, the District did not accomplish this objective. Specifically, the District's capital asset list did not include all required information. Also, the list included several items categorized as "undesignated," numerous additions to the list were recorded as individual payments to vendors, and ancillary items were listed separately rather than included in an asset's total cost. In addition, the costs recorded on the capital assets list did not always agree to the supporting documentation, administrative fees paid to purchasing cooperatives were not always included in an asset's cost, and supporting documentation was not always maintained for assets' costs recorded on the list.

Additionally, the District did not always tag with permanent tag numbers or otherwise identify equipment, individual items were assigned multiple tag numbers, and multiple items were assigned the same tag number. Also, the District's capital assets and stewardship lists included items that could not be located on the District's premises, and items on the District's premises were not always included on the applicable list.

Further, the District did not depreciate all capital assets with costs in excess of \$5,000, and several assets with a value less than \$5,000 were included on the capital assets list and depreciated. Also, the District did not reconcile the results of its physical inventory taken in December 2006 to its capital assets and stewardship lists, capital asset additions to capital expenditures, or the current year's capital assets list to the previous year's list.

Finally, the District did not ensure that only authorized employees had keys to the buildings, and the District's policy of returning keys to the principal or department head when employees leave the District's employment was not enforced. This left district capital assets and supplies inventories susceptible to theft, loss, or misuse.

## Recommendations

The following procedures can help the District improve control over its assets and ensure that its capital assets and stewardship lists are accurate and complete:

- Prepare and maintain a detailed capital assets list that includes all equipment, land, buildings, and related improvements with costs of \$5,000 or more and with useful lives of 1 year or more.
- Prepare and maintain a stewardship list that includes all assets costing between \$1,000 and \$5,000.
- Include all required information for each item on the capital assets and stewardship lists.
- Record capital asset items at actual cost, including ancillary charges such as sales tax; delivery, installation, and assembly charges; and other incidental costs. Maintain documentation to support the costs recorded on the list.
- Affix a permanent tag number to each item recorded on the capital assets and stewardship lists, or specifically identify the items by some other means, such as serial numbers.
- Prepare and maintain equipment transfer forms when items are moved to another location.
- Update the capital assets and stewardship lists annually for items acquired, disposed of, or moved to different locations.
- Ensure that depreciation is properly calculated and recorded in the accounting records for capital assets with costs in excess of \$5,000.
- Reconcile the results of the physical inventory with the capital assets and stewardship lists.
- Reconcile items added to the capital assets list during the fiscal year to capital expenditures for that year for each fund, and the previous year's capital assets list to the current year's list.
- Ensure that only authorized employees have key access to district buildings and that all keys are returned prior to paying an employee's final paycheck.

USFR pages VI-E-2 and 3 and USFR Memorandum No. 196 describe the information that should be recorded on the capital assets and stewardship lists.

The forms on USFR pages VI-E-13 and 14 may be used to document the reconciliation of capital asset additions to capital expenditures and the current year's capital assets list to the previous year's list.

## The District should ensure the accuracy of its student attendance records

The State of Arizona provides funding to school districts based on membership and absences. In turn, the State requires school districts to maintain accurate attendance records to ensure that the District receives the appropriate amount of state aid and



local property taxes. However, the District did not accomplish this objective. Specifically, absences reported during the 100th-day reporting period on the schools' Attendance Collection Registers did not agree to the teachers' Daily Attendance Records and the District's computerized attendance system. Also, the absences reported on ADE's report for the 100th-day reporting period did not always agree to the District's computerized attendance system.

The District may not have received the appropriate amount of funding since the District did not report membership and absences correctly.

Additionally, the following deficiencies were noted regarding student entry and withdrawal forms:

- Entry and withdrawal dates did not always agree among the entry and withdrawal forms, the teachers' Daily Attendance Records, the schools' Attendance Collection Registers, and the computerized attendance system. As a result, the actual date of the entry or withdrawal could not be determined for several students.
- Teachers' Daily Attendance Records did not always indicate when students had been withdrawn.
- Documentation was not maintained to support whether entries were entered into the computerized attendance system within 5 working days.
- Withdrawals were not always entered into the computerized attendance system within 5 working days.
- Withdrawal forms did not always indicate the withdrawal date.
- Students with ten consecutive unexcused absences were not always withdrawn correctly.

## Recommendations

To help ensure that the District receives the correct amount of state and local funding, the District should:

- Ensure that membership and absences reported to ADE are supported by attendance records, including the District's computerized attendance system, the teachers' Daily Attendance Records, and the schools' Attendance Collection Registers.
- Update the teachers' Daily Attendance Records and the schools' Attendance Collection Registers for any adjustments made to the District's computerized attendance system to support the absences reported to ADE.

ADE provides guidance for attendance reporting requirements in its *Instructions for Required Reports*.

- Retain documentation, including teachers' Daily Attendance Records, schools' Attendance Collection Registers, membership and absences reports from the computerized attendance system, entry forms, and Official Notice of Pupil Withdrawal forms, to support membership and absences reported.
- Require a second employee to verify that the entry and withdrawal dates recorded on the entry and withdrawal forms agree with the dates in the teachers' Daily Attendance Records, the schools' Attendance Collection Registers, and the District's computerized attendance system.
- Record entries and withdrawals in the District's computerized attendance system within 5 working days of the date of entry or withdrawal and indicate the date entered into the system on the entry and withdrawal forms.
- Withdraw students with ten consecutive unexcused absences as of the last day of attendance and maintain documentation to support the absences and withdrawal.

## The District should strengthen controls over its food service operations

School district food service programs should be self-sufficient. To help accomplish this objective, charge sales for meals served to students should be discouraged; however, when charge sales are allowed, the District should have adequate policies and procedures to ensure charge sales are accurately recorded and subsequently collected. However, the District did not establish proper controls over charge sales to students. According to the District's FY 2006 audit reports, the District had allowed unlimited and unrecorded charge sales for student lunches, resulting in the loss of approximately \$200,000 of FY 2006 food service revenue. This occurred because the District did not reconcile meals served to cash collections and charge sales and had no effective procedures in place for recording and collecting charge sales. Also, because of inadequate records, we were unable to determine whether the District had additional losses from charge sales in FY 2007. Although the District indicated that collection letters had been sent to parents for charge sales, the District did not retain documentation of collection letters sent, and there was no policy or procedure in place to follow up on the letters and collect the monies owed.

The District's FY 2006 audit reports indicated a negative cash balance in the Food Service Fund. The last cash balance report available during our onsite review (March 2007) also indicated a negative cash balance in the Fund.

The District's FY 2006 audit reports indicated that the District incurred losses of approximately \$200,000 from FY 2006 charge sales.

## Recommendations

To help strengthen controls over the District's food service operations, the District should establish policies and procedures that provide for the following:

- Reconcile the number of meals served to cash collections and charge sales.
- Maintain current, detailed records of charge sales and payments on account by student and in total for each school and the District.
- Collect meal charges and retain supporting documentation that collection letters were sent to parents when students owed monies and of any further actions taken to collect the amounts owed.
- Verify that sufficient cash is available in the Food Service Fund before authorizing expenditures.

## The District's controls over student activities monies should be strengthened

The District holds student activities monies raised through students' efforts for safekeeping. Therefore, the District has a fiduciary responsibility to ensure that these monies are not misused, lost, or stolen. The Governing Board is responsible for establishing oversight for these monies to ensure that proper procedures are followed for collecting and spending them. However, proper oversight was not established. Specifically, the District did not always maintain supporting documentation for cash received at student activities events. In addition, monies were not always deposited in the student activities bank account in a timely manner, and documentation supporting the deposit was not completed before deposits were made into the bank account.

Poor cash controls left student monies susceptible to loss, theft, or misuse.

Further, revenues of the Personal Reflections Club (PR Club), operated out of V.H. Lassen School, appeared to be raised by students' efforts (restaurant/bakery sales), private grants and/or awards, and extracurricular activities fees tax credit contributions that may have been commingled, and part of which may have been inappropriately spent. For example, scholarships and "bookships" were paid to individual students out of the student activities account and the Extracurricular Activities Fees Tax Credit Fund, respectively.

## Recommendations

To strengthen controls over student activities monies, the District should require the student clubs or sponsors to prepare cash receipt forms for cash received, such as student field trips and yearbook sales. If cash receipts are not practical, then the District should prepare Activity or Ticket Merchandise Inventory forms to document and reconcile cash collections and tickets or items sold before deposits are made. If it is not practical to sell tickets or count items before and after the sale, such as for bake sales, student clubs or sponsors should still prepare a Fund Raiser Reconciliation Summary form to document cash collected. In addition, student clubs or sponsors should deposit cash receipts intact daily if significant, or at least weekly, into the student activities bank account.

Further, for the PR Club, the District should specifically identify student activities monies, grants and/or awards, and extracurricular activities fees tax credit contributions received by the PR Club. Monies raised by the students' efforts in connection with activities of student organizations, clubs, school plays, or other student entertainment should be deposited in the Student Activities Fund bank account and used for student-approved activities. Monies received from private grants and/or awards should be deposited in the Gift and Donations Fund and used for the intended purpose. Monies received from extracurricular activities fees tax credit contributions should be deposited in the Extracurricular Activities Fees Tax Credit Fund or the Auxiliary Operations Fund and used in support of extracurricular activities.

## The District should implement controls to help ensure that unauthorized bank accounts are not opened

The District maintains various bank accounts, as prescribed by Arizona Revised Statutes, including the Maintenance and Operation Fund revolving, Food Service Fund clearing, and Student Activities Fund bank accounts. The District should have controls in place to ensure that bank accounts are not opened without authorization from the governing board. However, numerous bank accounts were opened by district employees under the District's taxpayer identification number without Governing Board authorization.

## Recommendations

The District should implement the following controls to help ensure unauthorized bank accounts are not opened by district employees:

- Communicate to all employees that bank accounts must be authorized by the Governing Board.
- Communicate to all parent-teacher organizations that bank accounts must be established under the organizations' own taxpayer identification numbers, rather than the District's.
- Investigate any unauthorized bank accounts to determine the proper accounting for the monies in that account, deposit the monies in the proper fund or bank account, and close the account.
- Contact the individual bank branch where any unauthorized bank accounts were established and provide a written request that bank staff not open any accounts under the District's name or taxpayer identification number without evidence of the District's Governing Board's approval.
- Contact the District's bank(s) at least twice a year to verify that there are no unauthorized bank accounts.

## The District should maintain accurate and complete accounting records and conflict of interest files

The District's Governing Board depends on accurate information to fulfill its oversight responsibility. The District should also report accurate information to the public and agencies from which it receives funding. To achieve this objective, management should ensure that its accounting records are accurate, complete, and properly supported. However, the District did not fully accomplish this objective. Specifically, the District did not adequately separate journal entry responsibilities as the same employee prepared, approved, and posted journal entries. In addition, the District's FY 2006 audit reports indicated that the District did not prepare an Advice of Encumbrance for FY 2006. However, subsequently the District provided documentation that Advices of Encumbrance were filed for FYs 2006, as well as 2007. Due to the timing of our onsite review, we were unable to determine the accuracy of those documents.

Further, the District is responsible for ensuring that employees and board members comply with Arizona Revised Statutes (A.R.S.) Title 38, Chapter 3, Article 8, Conflict of Interest of Officers and Employees. This requires that any school district board member or employee (full-time, part-time, or on a contract basis) who has or whose relative has a substantial interest in any contract, sale, purchase, service, or decision of a school district must disclose this interest. The interest must be disclosed in writing and retained in a file exclusively for that purpose with the District. This file is public record. In addition, according to statute, a board member or employee who has such a conflict must refrain from participating in or voting on such a matter. However, the District did not inform all of its employees of the conflict of interest requirements and could not document that employees with conflicts, if any, had filed conflict of interest statements.

## Recommendations

The following procedures can help the District maintain accurate and complete accounting records and conflict of interest files:

- Separate the responsibilities of initiating, approving, and recording journal entries. District management should review and approve journal entries before they are recorded in the District's records.
- Prepare and retain an Advice of Encumbrance for liabilities payable as of June 30 for all levy funds. The total amount to be encumbered from each fund should be less than or equal to the unexpended budget balance.
- Inform all board members and employees of conflict of interest requirements and require those who have or whose relative has a substantial interest in any contract, sale, purchase, service, or decision of the District to file a conflict of interest statement and refrain from voting upon or otherwise participating in any manner as an officer or employee in such contract, sale, or purchase. A.R.S. §38-502(9) defines a relative as a parent, child, sister, brother, spouse, grandchild, grandparent, mother-in-law, father-in-law, brother-in-law, sister-in-law, or stepchild.
- If an employee supervises a relative, the conflict of interest statement should describe the relationship, and the supervisor must refrain from participating in decisions or contracts related to that relative, such as approving pay increases.